

Market Comment| Powell's testimony reinforced expectations of gradual rate hikes in the US

Global Financial Markets Unit
17 Jul 2018

- **The US 10Y yield trimmed yesterday's increase, but the 2Y yield continued inched up after Powell's testimony to Congress supported a gradual tightening of monetary policy, as expected.** Regarding the economic scenario, the Fed said that recent data suggest the economy is performing strongly and the risks to the economy are "roughly balanced" (see). On the other hand, European sovereign yields inched down, led by a sharp decline in Italy's 10Y yield (-10 bps), which benefited from strategies in search of yield in the euro zone (see).
- **Equity markets slightly increased across the board**, except in Asian EM, as they caught up with yesterday's declines in US equity indices, pressured by the fall in oil prices which dragged down energy stocks. Despite today's Netflix fall (-10%), after disappointing 2Q18 subscription growth, the impact on US equities has been muted (see). Moreover, tit-for-tat strategies in the trade conflict between the US and China and Europe still have little impact on DM equity markets.
- **The USD appreciated slightly across the board as Powell reaffirmed the FOMC's gradual tightening path.** EM currencies depreciated slightly across the board: the main exception was the TRY, which appreciated, favoured by yesterday's sharp drop in crude oil prices. The lower level of crude prices (hovering around \$72 per barrel) also weighed on the performance of EM oil producers.

Table 1

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Debt markets (10Y, % change in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
US 10Y	2.60	0.6	3.4	6	68
US	2.85	-0.7	0.2	7	39
GER (2-yr)	-0.63	-0.2	1.0	-1	2
Germany	0.35	-1.7	2.6	-11	18
France	0.63	-2.2	2.8	-11	20
Spain	1.25	-2.8	2.7	5	36
Italy	2.47	-10.8	-20.2	-14	37
Portugal	1.74	-4.2	1.6	8	27
Greece	3.86	-0.5	0.3	-64	-25
Japan (2-yr)	-0.13	0.1	-0.4	1	1
Japan	0.04	-0.2	0.5	-1	-1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.46	-2.0	24.5	-64	120
Chile	4.56	0.0	2.5	-2	7
Colombia	6.64	0.7	8.6	2	20
Mexico	7.74	-0.3	6.4	25	17
Peru	5.17	0.8	2.1	-24	30
Poland	3.09	-7.4	-11.8	-16	22
Russia	7.74	4.9	2.3	-11	10
Turkey	17.04	-55.0	14.0	140	568
India	7.75	5.6	15.3	14	26
Indonesia	7.58	4.7	21.8	28	123
Country risk (bp, changes in bp)					
Developed Markets	level	Daily	Weekly	Monthly	YTD
10-yr sovereign spread vs Germany					
France	28	-0.5	-5.4	1	-7
Italy	212	-8.1	-22.2	-3	55
Portugal	139	-2.5	-4.2	3	-9
Spain	91	-1.1	-5.3	7	-19
2-yr sovereign spread vs Germany					
France	20	-0.6	1.0	8	4
Italy	117	-10.1	-22.3	-10	81
Portugal	51	-1.6	-3.2	1	1
Spain	33	0.6	-4.3	-6	6
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
1-yr sovereign CDS *					
Brazil	243	2.4	-2	-26	82
Chile	57	2.0	-1	0	8
Colombia	112	3.8	7	15	7
Argentina	432	9.0	13	22	194
Mexico	112	2.3	0	-36	6
Peru	84	1.6	-2	-6	12
Poland	61	0.0	0	-7	13
Russia	127	2.2	-2	-14	9
Turkey	327	4.7	52	27	163
China	65	2.5	-2	9	14
India	98	0.2	-5	10	29
Indonesia	117	2.8	-9	-10	31
Risk indicators					
Volatility indicators (change in ppt)					
level	Daily	Weekly	Monthly	YTD	
VIX	12	-5.6	0	0	2
VSTOXX	13	-0.5	0	0	-1
EM EFT volatility index	17	-0.3	-1	0	0
Dollar Euro volatility	6	-0.1	0	-1	0
EM FX volatility index	10	0.2	0	0	2
Credit spread (BAA) (change in bp)	191	0.7	-2	3	13
US bonds volatility index	48	0.5	-2	5	1
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.42	-	1	-1	10
EZ Inflation expectations (5Y5Y)	1.71	-	-3	-3	-3
Inflation (YoY) (%)					
level	Daily	Weekly	Monthly	YTD	
US	53	-0.5	-1	-1	11
EZ	84	-2.1	-5	-2	45
UK	61	0.9	-1	9	20
Large Spanish	80	-3.7	-4	-2	44
Medium Spanish	91	-0.9	-5	-8	16
Commodity prices (Bps)					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	158	-0.5	-1	-1	11
EZ Non-financial	78	-2.1	-5	-2	45
UK Non-financial	103	-1.1	-2	-3	11
Interbank markets (% change in bp)					
level	Daily	Weekly	Monthly	YTD	
LIBOR Index	-0.36	0	0	0	1
Eurobor 3m	-0.18	0	0	0	1
Earlibor 12m	-0.18	0	0	0	1
Libor 3m	2.33	0	0	0	64
Libor 12m	2.79	0	1	2	68
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
Main indices					
S&P500	2,803	0.2	0.3	0.8	4
Dow Jones	25,089	0.1	0.7	0.0	1
Nikkei	22,697	0.4	2.3	0.2	0
FTSE 100	7,626	0.3	0.9	0.1	0
HangSeng 50	24,500	0.2	0.5	-1.4	-1
IBEX	9,219	0.0	-1.7	-1.3	-4
DAX	12,662	0.8	0.4	-2.7	-2
CAC	5,423	0.2	0.2	-1.4	-3
NIB	21,978	0.7	0.4	1.0	1
ASE Athens	765	0.0	1.3	0.2	6
MSCI LatAm *	84,679	0.1	0.7	4.0	-1
Bovespa (Brazil)	77,574	1.2	3.6	9.6	0
Merbi (Mexico)	48,472	0.0	1.1	3.3	-3
IBVL (Argentina)	26,226	-0.1	5.1	13.0	-16
MSCI EM Europe *	5,291	-0.7	-2.3	0.6	-2
Poland	2,159	0.9	-1.1	-2.3	-13
Index 10 (Russia)	4,446	-0.9	-2.2	3.1	9
ISE 100 (Turkey)	91,630	2.1	-4.8	-3.1	-22
MSCI EM Asia	886	-0.4	0.1	-5.3	-4
Shanghai Com (China)	2,396	-0.6	1.0	7.4	-16
Jakarta Indonesia	5,262	-1.4	0.9	2.2	8
Financial sector					
level	Daily	Weekly	Monthly	YTD	
US banks					
JPM	110.6	0.0	3.7	2.5	2
Ch	69.7	0.3	2.2	5.1	-6
BaK	30.1	1.1	4.5	2.9	1
MS	49.0	0.1	1.8	-4.3	-6
GS	227.8	-1.6	0.4	-1.8	-11
EZ banks					
BNP	52.1	-0.7	-2.4	-3.7	-16
Credit Agricole	11.5	0.0	-0.8	-3.0	-18
Diocete Bank	10.2	-1.4	-4.4	-7.1	-36
ING	12.4	-1.2	-1.7	-1.7	-19
Intesa	2.5	1.0	-1.8	-2.6	-10
SC	36.3	-0.1	0.7	1.6	-16
Unicredit	14.4	0.5	-1.4	0.5	-8
UK banks	84.4	-0.4	0.2	-3.1	-8
HSBC	707.3	0.1	0.9	2.1	-8
RBS	243.9	0.1	-0.3	-4.2	-12
Barclays	188.4	-1.6	1.0	3.2	-7
Lloyds	62.5	-0.1	-0.1	0.6	-8
Large Spanish banks					
Santander	4.6	-0.5	-3.0	-1.5	-15
BBVA	5.9	-1.0	-4.5	0.7	-16
Medium Spanish banks					
Cajabank	70.4	-1.0	-3.7	-1.7	-8
Catalanbank	3.7	-0.2	-3.0	0.6	-6
Sabadell	1.4	-0.4	-5.6	-3.0	-17
Bankinter	8.4	-2.0	-2.4	0.3	-6
Banisa	3.1	1.0	-5.3	-5.8	-23
Commodities (% change in currency depreciation)					
Developed	level	Daily	Weekly	Monthly	YTD
EURUSD	1,168	-0.3	0.6	0.6	-3
GBPUSD	1.32	-0.5	0.8	0.8	-3
USDJPY	112.76	-0.4	-1.6	-1.9	0
DXY	94.84	0.3	0.7	0.0	3
Commodity					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	27.48	-0.5	-0.4	2.8	-49
USDZAR (Brazil)	3.86	0.1	-1.1	-3.4	-18
USDCJP (China)	654.30	-0.6	-1.1	3.2	8
USDCOP (Colombia)	287.6	-0.1	-0.2	0.7	2
USDMXN (Mexico)	18.85	-0.2	0.4	8.6	4
USDREN (Peru)	3.27	-0.1	0.1	0.4	-1
LACI	57.91	-0.1	0.6	2.1	9
USDPLN (Poland)	3.68	-0.2	-0.1	0.2	-7
USDINR (Russia)	62.46	-0.2	-1.0	1.1	9
USDTRY (Turkey)	4.79	1.1	-1.8	-1.3	-27
USDQWY (China)	6.71	-0.2	-1.1	-4.2	-3
USDIDR (India)	68.46	0.2	0.5	0.7	6
USDIDR (Indonesia)	14,378	0.1	-0.1	-3.2	-6
ADXY	106.3	-0.1	0.7	-2.3	-3
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	71.9	0.1	8.8	-2	8
WTI	67	-0.9	9.0	4	12
Copper	276	-0.1	2.6	-12	-15
Gold	1228	-1.0	2.2	-4	-7
S&P Spot commodity *	451	-2.7	6.2	-3	-2
S&P Brent Spot *	611	-4.6	8.8	-2	8
S&P Metals Spot *	344	-0.6	-2.0	-11	-13
S&P Agricultural *	276	-0.1	1.6	-7	-3

* With one day delay
Source: Bloomberg, Datastream and Haver

Fuente: BBVA Research

Debt markets (10Y, %; changes in bps)					
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US 10Y	2.60	0.6	3.4	6	68
US	2.85	-0.7	0.2	-7	39
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Germany	0.35	-1.7	2.6	-11	-18
France	0.63	-2.2	2.8	-11	-20
Spain	1.25	-2.8	3.7	5	36
Italy	2.47	-10.8	-20.2	-14	37
Portugal	1.74	-4.2	-1.6	8	-27
Greece	3.86	-0.5	0.3	64	-75
Japan (2-yr)	0.13	0.1	0.4	1	1
Japan	0.04	-0.2	0.5	-1	-1
Emerging Markets					
level	Daily	Weekly	Monthly	YTD	
Brazil	11.46	-2.0	24.6	-64	120
Chile	4.68	0.0	2.5	-2	7
Colombia	6.64	0.7	8.6	2	20
Mexico	7.74	-0.3	6.4	-25	17
Peru	5.17	0.8	2.1	-24	30
Poland	3.09	-7.4	-11.9	-16	-22
Russia	7.74	4.9	2.3	-11	10
Turkey	17.04	-55.0	14.0	140	568
India	7.75	-5.6	-15.4	-14	36
Indonesia	7.58	-4.7	21.8	28	129
Country risk (bp; changes in bp)					
Developed Markets					
10-yr sovereign spread vs Germany					
level	Daily	Weekly	Monthly	YTD	
France	28	-0.5	5.4	1	-7
Italy	212	-9.1	-22.8	-3	55
Portugal	139	-2.5	-4.2	3	-9
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2-yr sovereign spread vs Germany					
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Poland	61	0.0	0	-7	13
Russia	127	2.2	-2	-14	9
Turkey	327	4.7	53	27	162
China	65	-2.5	-2	9	14
India	98	0.2	-5	10	29
Indonesia	117	-2.8	9	-10	31
Risk indicators					
Volatility indicators (change in bp)					
level	Daily	Weekly	Monthly	YTD	
VIX	12	-0.6	0	0	2
VSTOXX	13	-0.5	0	0	-1
EM EFT volatility index	17	-0.3	-1	0	0
Dinarians volatility	6	-0.1	0	-1	0
EM FX volatility index	10	-0.2	0	0	2
Credit spread (BAA) change in bps	191	0.7	-2	3	13
US bonds volatility index	48	-0.5	-2	-5	-1
Inflation expectations (%)					
level	Daily	Weekly	Monthly	YTD	
US Inflation expectations (5Y5Y)	2.42	-	1	-1	10
EZ Inflation expectations (5Y5Y)	1.21	-	-3	-3	-3
Bonding 5-yr CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US	53	-0.5	-1	-1	11
EZ	84	-2.1	-5	-2	45
UK	61	-0.9	-1	9	20
Large Spanish	80	-3.7	-4	2	44
Medium Spanish	91	-0.9	-5	-8	16
Commodity 5-yr CDS (bps)					
level	Daily	Weekly	Monthly	YTD	
US Non-financial	158	-0.5	-1	-1	11
EZ Non-financial	78	-2.1	-5	-2	45
UK Non-financial	103	-1.1	-2	-3	11
Interbank markets (%; changes in bp)					
level	Daily	Weekly	Monthly	YTD	
EURIBOR Index	-0.36	0	0	0	1
Euribor 3m	-0.32	0	0	0	1
Euribor 12m	-0.18	0	0	0	1
Libor 3m	2.33	0	0	0	64
Libor 12m	2.78	0	1	2	66
Stock markets (%)					
level	Daily	Weekly	Monthly	YTD	
S&P500	2,803	0.2	0.3	0.8	4
Dow Jones	25,089	0.1	0.7	0.0	1
Nikkei	22,697	0.4	2.3	0.7	0
FTSE 100	7,626	0.3	0.9	0.1	0
Euro Stoxx 50	3,458	0.2	0.5	1.4	-1
IBEX	9,719	0.0	-1.7	-1.3	-4
DAX	12,662	0.8	0.4	2.7	-2
CAC	5,423	0.2	0.2	1.4	3
MI	21,970	0.7	0.4	-1.0	1
ASE Athens	765	0.0	1.3	0.2	-6
MSCI Latam *	84,879	0.1	0.7	4.0	-1
Bovespa (Brazil)	77,574	1.2	3.6	5.6	0
Mexcel (Mexico)	48,472	0.0	-1.1	3.3	-3
Merval (Argentina)	26,226	-0.1	5.1	-13.0	-16
MSCI EM Europe *	5,291	-0.7	2.3	0.6	-2
Polmix	2,153	0.9	-1.1	2.3	-13
Moon 10 (Russia)	4,446	-0.9	3.2	3.1	8
Ru 100 (Turkey)	91,630	-2.1	-4.8	-3.1	-22
MSCI EM Asia *	896	-0.4	0.1	6.3	-4
Shanghai Com (China)	2,798	-0.6	-1.0	7.4	-16
Jakarta Indonesia	5,062	-1.4	0.9	-2.2	-8
European banks					
level	Daily	Weekly	Monthly	YTD	
US banks	143.5	0.1	2.7	1.0	-3
JPM	116.6	0.0	3.7	2.5	2
Ch	69.7	0.3	2.2	5.1	-6
BoA	30.1	1.1	4.5	2.9	1
MS	49.0	0.1	1.8	4.3	-6
GS	227.8	-1.6	0.4	-1.8	-11
EZ banks	90.3	-0.3	-1.1	-1.6	-17
BNP	52.1	-0.7	2.4	3.7	16
Credit Agricole	11.5	0.0	0.8	3.0	16
Deutsche Bank	10.2	-1.4	4.4	7.1	36
ING	12.4	-1.2	-1.7	-1.7	-19
Intesa	2.8	1.0	1.8	7.6	-10
SG	36.3	-0.1	0.7	-1.6	-16
Unicredit	14.4	0.5	-1.4	0.5	-8
UK banks	84.4	-0.4	0.2	2.1	-8
HSBC	707.3	0.1	0.0	2.1	-8
RBS	243.9	0.1	-0.3	-4.2	-12
Barclays	188.4	-1.6	1.0	3.2	-7
Lloyds	62.5	-0.1	-0.1	0.6	-8
Large Spanish banks	71.3	-0.7	-3.8	-1.1	-16
Santander	4.6	-0.5	3.0	1.5	-15
BBVA	5.9	-1.0	-4.5	0.7	-16
Medium Spanish banks	70.4	-1.0	-3.7	-1.7	-8
Cabotbank	3.7	-0.2	3.0	0.6	6
Sabadell	1.4	-0.4	-5.6	-3.0	-17
Bankinter	8.4	-2.0	-2.4	0.3	6
Banisa	3.1	-1.0	5.3	-5.8	-32
Commodities (%; red for currency depreciation)					
Developed					
level	Daily	Weekly	Monthly	YTD	
EURUSD	1,168	-0.3	0.6	0.6	-3
GBPUSD	1,132	-0.5	0.8	0.8	-3
USDJPY	112.76	-0.4	-1.6	-1.9	0
DX	94.84	0.3	0.7	0.0	-3
Emerging					
level	Daily	Weekly	Monthly	YTD	
USDARS (Argentina)	27.48	-0.5	-0.4	2.8	-49
USDBRL (Brazil)	3.86	0.1	-1.1	-3.4	-18
USDCOP (Colombia)	654.30	-0.6	-1.1	3.2	-8
USDCOP (Colombia)	2876	-0.1	0.2	0.7	2
USDMXN (Mexico)	18.85	-0.2	0.4	8.6	4
USDPEN (Peru)	3.27	-0.1	0.1	0.4	-1
LACI	57.91	-0.1	0.6	2.1	-9
USDPLN (Poland)	3.68	-0.2	0.1	0.2	-7
USDRUB (Russia)	62.46	-0.2	-1.0	1.1	-9
USDTRY (Turkey)	4.79	1.1	-1.8	-1.3	-27
USDCHF (China)	6.71	-0.2	-1.1	4.2	-3
USDINR (India)	68.46	0.2	0.5	0.7	-8
USDIDR (Indonesia)	14,378	0.1	-0.1	-3.2	-6
ADXY	106.3	-0.1	0.7	2.3	-3
Commodities (%)					
level	Daily	Weekly	Monthly	YTD	
Brent	71.9	0.1	8.8	-2	8
WTX	57	-0.9	9.0	4	12
Copper	276	-0.1	2.6	-12	-15
Gold	1228	-1.0	2.2	-4	-7
S&P Spot commodity *	451	-2.7	6.2	-3	2
S&P Brent Spot *	611	-4.6	8.8	2	8
S&P Metals Spot *	344	-0.6	2.7	-11	-13
S&P Agricultural *	276	-0.1	-1.6	-7	-3

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Fuente: BBVA Research

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